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C O N F I D E N T I A L SANTO DOMINGO 001321

SIPDIS

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SUBJECT: SCENESETTER FOR VISIT OF WHA P/DAS CRAIG KELLY

CLASSIFIED BY: Alexander Margulies, Counselor for Political and
Economic Affairs, State, ECOPOL; REASON: 1.4(B), (D)

FRC Fort Lauderdale please pass to WHA P/DAS Craig Kelly

11. (C) SUMMARY: Embassy Santo Domingo warmly welcomes you to the Dominican Republic. Your visit will reinforce our strong bilateral relationship that is based on extensive economic and commercial ties, military and law enforcement cooperation, and cultural links. President Leonel Fernandez has asked to meet with you, along with Foreign Minister Carlos Morales Troncoso. Your visit comes at a time when the President is on a bit of a roll, following the conclusion of an IMF stand-by agreement that should lead to USD 2.9 billion in international financial institution disbursements through the end of 2010, congressional ratification of an extensive constitutional reform proposed by the President, and enhanced prospects for the ruling Dominican Liberation Party in the May congressional/municipal elections. In addition to engaging the Dominicans on the Copenhagen climate talks, the new U.S. policy on Afghanistan/Pakistan, and Honduras, your visit provides an opportunity to congratulate President Fernandez on the counternarcotics achievements realized following the August appointment of a new anti-drug unit (DNCD) commander, as well as to encourage the Government of the Dominican Republic (GoDR) to prioritize greater cooperation with Haiti, fully implement the IMF stand-by agreement (resisting election-year temptations to bust the budget), and move forward on democratic reforms, particularly the development of a career civil service. Two baseball-related events will also generate positive publicity for the USAID-Major League Baseball Alliance that funds social programs in the DR. END SUMMARY.

Political Overview

12. (C) A longtime leader of the left-leaning Dominican Liberation Party (PLD), President Leonel Fernandez is a pragmatist who values the Dominican Republic's relations with the United States. He strongly supports regional trade and achieved the entry into force of the CAFTA-DR treaty that he inherited from his center-left predecessor. Fernandez established a thriving law practice, served as President of the Republic 1996-2000, founded the successful think tank FUNGLODE, and was elected for a second, non-consecutive term in 2004. Fernandez was re-elected in 2008 for his third term

with 53 percent of the vote. He is not eligible to run again in 2012, but, under the constitutional reforms approved by Congress (to be officially promulgated on 1/26/10), could seek another term in 2016.

¶3. (C) Despite popular discontent with the effects the global economic crisis has had on the DR, chronic electricity blackouts, and a perceived worsening personal security situation, Fernandez remains personally popular. The President places a great deal of importance on social stability and peace, recognizes the importance of the media and makes almost daily public appearances to inaugurate infrastructure projects or social programs, and is a master in the art of using pork barrel spending and patronage to consolidate political support ("clientelismo" in the local jargon). Judging from his actions, Fernandez views reform as a gradual process, not showing an inclination to use his substantial political capital and overwhelming congressional majority to challenge directly the status quo. The large influx of IFI financing (see para 5) should relieve pressure on the GoDR to engage in major reforms, as will the ruling PLD party's focus on its election campaigns for the May 16 congressional/municipal elections.

¶4. (C) The two major parties, President Fernandez's PLD and the opposition Dominican Revolutionary Party (PRD), headed by Miguel Vargas Maldonado, will have just finished their respective

primaries when you arrive. Both parties "reserved" 30-45 percent of their total candidacies for individuals designated by the party leadership, leading to widespread complaints of anti-democratic practices. The primaries generated well over 100 challenges to the results based upon allegations ranging from ballot stuffing, to altered vote tally sheets, to the invasion of polling sites by armed individuals backing the winning candidate. These challenges will be initially addressed by the parties' electoral organizations, but many will likely wind up before the national Central Electoral Board (JCE). The JCE will also run the May 16 elections and its leadership is confident that these will be held with minimal irregularities, although there is concern, shared by the PRD, that the PLD will use government resources to further its candidates' campaigns.

Economic Crisis

¶5. (C) The global economic crisis, and in particular the recession in the U.S., is having a serious impact on the Dominican economy, with exports, remittances, tourist spending and government revenues all down significantly. The GoDR's initial response was to tread water in the hope that things would improve, but by August, with the fiscal coffers looking bare, revenues continuing their downward spiral, and international financial institution (IFI) loans on hold, President Fernandez reversed course and sought an International Monetary Fund (IMF) USD 1.7 billion stand-by agreement, which was concluded in November. The IMF accord will also free up an additional USD 1.2 billion in World Bank and IDB loans. In addition, the GoDR is planning on issuing USD 500 million to USD one billion in sovereign bonds over the coming year. The IMF agreement contains some conditionality, including paying off some of the debt owed to private electricity generators (U.S. firm AES alone is owed some USD 300 million), revamping and reducing electricity sector subsidies (over USD one billion in 2009), limiting the budgetary deficit to 3.5 percent of GDP, and improving revenue collection. With most of the loans front-loaded, however, the IFIs will enjoy little leverage should the government fail to comply with the IMF accord.

¶16. (SBU) Since entry into force of CAFTA-DR in 2007, U.S. exports to the Dominican Republic and foreign direct investment have grown significantly (up 8.5 percent in 2008), while Dominican exports have fallen (down 5.7 percent in 2008). Although the drop in Dominican exports is largely due to the plunge in U.S. demand as a result of the global economic crisis, local exporters have seized on this to question CAFTA-DR's utility. We have countered this argument by pointing out that foreign direct investment here has remained stable, in large part due to foreign investors' recognition that the free trade agreement makes the DR an inviting doorway to the U.S. market. There is also a perception among the Dominican public that CAFTA-DR has not benefitted them since the price of consumer goods has not dropped as was promised by the GoDR. This is due, however, mainly to the lack of competition in the market and the fact that many basic food items, such as rice and beans, continue to be protected.

¶17. (SBU) The GODR needs to continue to make reforms to improve market liberalization and transparency in key areas of the economy including customs administration, protection of intellectual property rights, investment, financial services, and government

procurement. While much of the needed legislation has been passed, enforcement remains weak. The USG remains concerned about delays in admitting agriculture imports under the tariff rate quotas. USAID is providing trade capacity-building assistance to public and private institutions to help facilitate trade, improve competitiveness in key sectors, and increase private investment.

Law Enforcement, Military Cooperation, and Corruption

¶18. (C) The Dominican Republic sits astride major South-North smuggling routes for both migrants and illegal narcotics and is, accordingly, a critical link in the U.S. war on transnational organized crime and terrorism. While the Dominican Government cooperates closely with the U.S. on these threats, results have been mixed. The appointment of a new head of the police anti-drug section (DNCD) in August has resulted in more energetic enforcement, with cocaine seizures up 25 percent over the average for the past decade and significant seizures of narcotrafficking proceeds. Improvements in Dominican control over land, air, and maritime space, however, appear transient and directly related in length and breadth to joint operations with U.S. law enforcement and/or military entities. Even with this assistance, Dominican borders will remain vulnerable to smuggling and to the transit of criminals and terrorists in the short term.

¶19. (C) Dominican officials and media commentators regularly criticize what they consider to be insufficient USG counternarcotics assistance. The Caribbean Basin Security Initiative (CBSI), which the GoDR has enthusiastically embraced, hosting the last working group meeting in October, answers that complaint. In addition, we are offering to provide USD 30 million in INL assistance to upgrade and maintain four HU-II Dominican Air Force helicopters for use exclusively in counternarcotics missions. The Armed Forces object to this restriction on use, as they only have a limited number of operational helicopters and would like to continue employing the choppers to ferry dignitaries around the

country.

¶10. (C) The Government has made minimal progress in fighting corruption, which adversely affects all U.S. objectives. National institutions are weak and are permeated by corruption at nearly all levels. The President's circle includes several individuals whose visas have been revoked on drug and/or corruption ineligibilities. Credible studies suggest that, while the majority of Dominican citizens consider corruption a key issue, the majority also condone and/or practice petty corruption. There are positive developments in the creation of a civil service, with both the judiciary and the Public Ministry making the greatest strides in forming a professional cadre with career tenure. Congress passed a Public Function Law in 2008, and the GoDR's goal is to incorporate one-quarter of its 430,000 employees as career bureaucrats by 2012 and half by 2016. To date, approximately 36,000 have been admitted to the new civil service.

¶11. (C) Dominican counterparts maintain close, productive relationships with U.S. law enforcement representatives and the U.S. military. Cooperation is generally excellent in the areas of extradition, counter-narcotics, illegal migration, and deportations. While the Fernandez administration is a vocal advocate of the fight against trafficking in persons, it does not dedicate adequate resources to implement its national plan against trafficking, nor has it sufficiently prosecuted high-level officials suspected of complicity in the practice.

Honduras

¶12. (U) President Fernandez steadfastly condemned the coup ousting Honduran President Manuel Zelaya and demanded his restoration to office. He expressed frustration at the inability of the OAS and UN to resolve the crisis and return Zelaya to the presidency. He also suggested that the USG could have done more to pressure the de facto Honduran authorities and briefly called for Honduras' suspension from DR-CAFTA. At the Ibero-American Summit, Fernandez took a softer line, observing that the Honduran elections could represent an opportunity for all of the political forces in the country to commence a "permanent dialogue" aimed at resolving the crisis. According to a Dominican Presidency press release, Fernandez and other regional leaders agreed that they, "could not recognize, but neither could they ignore" the Honduran election results, and supported a, "national accord between the political and social forces in Honduras that should be preceded by consensus of Latin American countries."

¶13. (C) In a 12/08/09 meeting with SOUTHCOM Commander Gen. Douglas Fraser and Charge, however, President Fernandez took a more practical view, stating that the time has come to "turn the page" and move forward on normalizing the situation in Honduras. What was needed, the President opined, was a scenario in which Zelaya can make a "dignified exit," with assurances of his personal safety and freedom from future prosecution. Fernandez noted that the coup plotters share these interests.

Venezuela

¶14. (C) President Fernandez has cordial relations with Hugo Chavez, and offers himself as an intermediary to the U.S. and to Colombia in dealing with the Venezuelan leader. The GoDR has taken advantage of the concessional financing of Venezuela's

"Petrocaribe" program, and has reached agreement in principle to sell 49 percent of the State-owned oil refinery REFIDOMSA to Venezuela's State-owned oil company PdVSA.

Haiti

¶15. (C) The GoDR promotes international assistance to Haiti, to counter instability, promote growth, and (hopefully) reduce illegal immigration to the Dominican Republic. President Fernandez has a good personal relationship with his Haitian counterpart President Preval, which could help mend historically strained ties between the Hispaniola neighbors. Foreign Minister Morales Troncoso, however, has been privately quite vocal in expressing his frustrations over Haiti's continual postponement of a meeting to renew the Mixed Bilateral Commission, an institution largely dormant since 1998. Following cancellations of dates in November and December, the Commission is now tentatively set to meet sometime in January.

¶16. (C) For the past two months the local media have consistently carried sensationalist reports on the large number of illegal Haitian immigrants in the DR (estimates range from several hundred thousand to two million), the burden they place on domestic social services, and the involvement of illegal Haitians in the illicit logging/charcoal industry, which is resulting in widespread deforestation, particularly in Dominican national parks. The GoDR, to its credit, has sought to dampen nationalistic hysteria on the Haitian issue.

¶17. (C) The Embassy, most recently in the Charge's Thanksgiving Speech to the Amcham, has emphasized the fact that Haiti is the DR's second-largest export market, taking in nearly 10 percent of the country's official exports, and that economic growth and development in Haiti will lead to similar benefits for the DR. We have also emphasized with GoDR officials the need for the DR to work with the Haitian Government to address the problem of statelessness, which affects several hundred thousand individuals born of Haitian parents. Their lack of official documentation denies them access to public services from education to social security to registering ownership of property.

UNGA Voting

¶18. (U) The GoDR has voted more with the U.S. at the 2009 United Nations General Assembly than in previous years, most recently siding with us on the Iran Human Rights Resolution.

Baseball and Development

¶19. (U) The Embassy will be hosting a reception on 12/9 to celebrate the first anniversary of the Alliance for Dominican Development between USAID and the Commissioner of Major League Baseball (MLB). The Alliance, under which USAID draws on a USD one million dollar fund to match contributions from MLB, provides good incentives to major league players to support social programs with

their own contributions. On 12/10, we have arranged for you to visit one of these projects, a community center sponsored by Philadelphia Phillies pitcher Pedro Martinez's foundation.

Suggested Talking Points

120. (SBU) Embassy suggests the following talking points on DR-related issues for your meeting with President Fernandez:

-- ECONOMY: Congratulations on coming so quickly to a stand-by agreement with the IMF. The disbursement of loans from the international financial institutions will provide the Dominican Republic with needed budget support and infrastructure investment to counteract the effects of the global economic crisis, and the commitments made by your Government to restructure subsidies and move forward on economic and political reforms should lay the foundations for future sustained growth. How do you see economic prospects over the coming year? What will be your most significant challenges?

-- POLITICS: How do you assess the political environment with the revised Constitution due to be promulgated in January and with congressional and municipal elections to be held in May? What needs to be done in terms of passing legislation to implement the new constitutional provisions, and what existing legislation needs to be revised? With respect to the elections, opposition parties and the media have expressed concerns about government resources being used to support PLD candidates and about money from narcotraffickers buying political influence. What steps is your government taking to ensure that the elections are free, fair and not influenced by narcotrafficking money?

-- NARCOTRAFFICKING: Your government's cooperation in combating narcotrafficking and strengthening regional security is greatly appreciated. The Dominican Republic is playing an active role in advancing the Caribbean Basin Security Initiative, hosting the last working group meeting in October. We have also been pleased with the performance of the DNCD since its new leadership took over in August, with significant increases in seizures of illegal narcotics and proceeds. We hope soon to conclude an agreement with your government to provide up to USD 30 million to refurbish and maintain four Huey II helicopters, as well as to train their pilots and mechanics.

-- HAITI: Haiti remains a top priority of the U.S. Government, which provided USD 308 million in bilateral assistance last year. We applaud your government's efforts to energize the Mixed Bilateral Commission and move forward on cooperation with the Haitian government. What are your government's priorities for the Commission? What possibilities do you see for economic cooperation and growth in trade between your two countries? What policies is your government developing to deal with the status of the thousands of individuals of Haitian origin who were born in the Dominican Republic?
Lambert